

Chapter 02 The Dynamic Environment of International Trade

True / False Questions

1. (p. 27) The French government continues to exclude American beef from the French diet based on disputes about mad cow disease.

FALSE

Difficulty: Easy
Type: Knowledge

2. (p. 27) Trade barriers are pesky hurdles to peace and prosperity.

TRUE

Difficulty: Easy
Type: Knowledge

3. (p. 27) One of the most severe problems faced by international marketers today is the extremely high level of tariffs the world over.

FALSE

Difficulty: Moderate
Type: Knowledge

4. (p. 28, Exhibit 2.1) With respect to total trade, the United States trades more with Mexico than any other country.

FALSE

Difficulty: Moderate
Type: Knowledge

5. (p. 28) The creation of the World Trade Organization (WTO) is one of the biggest victories for free trade in decades.

TRUE

Difficulty: Easy
Type: Comprehension

6. (p. 28) At no time in modern economic history have countries been more economically interdependent.

TRUE

Difficulty: Easy
Type: Comprehension

7. (p. 29) One of the contributing causes of the Great Depression was the Smoot-Hawley Act (1930), which raised average U.S. tariffs on more than 20,000 imported goods to levels in excess of 60 percent.

TRUE

Difficulty: Hard
Type: Knowledge

8. (p. 31) For almost one hundred years (1888-1971) the U.S. had a trade deficit. Since then, the U.S. has had a trade surplus.

FALSE

Difficulty: Hard
Type: Knowledge

9. (p. 31, Exhibit 2.2) Following the great economic boom of the late 1990s the number of American largest corporations remained approximately level through 2007 whereas during the same period Japanese largest corporations decreased from 22 to 8 corporations.

TRUE

Difficulty: Easy
Type: Knowledge

10. (p. 31, Exhibit 2.2) Following the great economic boom of the late 1990s British corporations were no longer among the world's largest corporations.

FALSE

Difficulty: Easy
Type: Knowledge

11. (p. 33) A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time--usually one year.

TRUE

Difficulty: Moderate
Type: Knowledge

12. (p. 33) A balance-of-payments statement includes the following: the current account, the past account, and the overdue account.

FALSE

Difficulty: Hard
Type: Knowledge

13. (p. 35) Nations utilize legal barriers, exchange barriers, and psychological barriers to restrain entry of unwanted goods.

TRUE

Difficulty: Moderate
Type: Knowledge

14. (p. 35) As the value of the dollar declines to lower levels, American products are more expensive for foreign customers and American exports decrease; moreover, foreign products are less expensive for American customers and foreign imports increase.

FALSE

Difficulty: Easy
Type: Knowledge

15. (p. 35-36) One of the justifications of protectionism is protection of cartels.

FALSE

Difficulty: Moderate
Type: Comprehension

16. (p. 37) A tariff is a specific unit or dollar limit applied to a particular type of good.

FALSE

Difficulty: Moderate
Type: Knowledge

17. (p. 38) If there is a limit on the number of imported television sets from Mexico, this is called a quota.

TRUE

Difficulty: Easy
Type: Application

18. (p. 38) If Germany agrees voluntarily to limit the number of automobiles exported to the United States, this would be an example of a quota.

FALSE

Difficulty: Moderate
Type: Application

19. (p. 39) A government boycott is an absolute restriction against the purchase and importation of certain goods from other countries.

TRUE

Difficulty: Easy
Type: Knowledge

20. (p. 38) A government can effectively regulate its international trade position by various forms of boycotts and embargoes.

FALSE

Difficulty: Moderate
Type: Comprehension

21. (p. 40) If the United States requires that any imported medicine meant for humans pass FDA standards, the standard requirement would be considered to be a form of nontariff barrier to international trade.

TRUE

Difficulty: Hard
Type: Application

22. (p. 40-41) If a foreign producer intentionally sells their products in the United States for less than the cost of production with the purpose of undermining competition and taking control of the market, the foreign producer would be guilty of what is called warrior pricing.

FALSE

Difficulty: Moderate
Type: Application

23. (p. 41) The overall purpose of the Omnibus Trade and Competitiveness Act of 1988 was to deal with trade deficits, protectionism, and overall fairness of our trading partners.

TRUE

Difficulty: Hard
Type: Comprehension

24. (p. 44) The GATT (General Agreement on Tariffs and Trade) was set up as a successor to the WTO (World Trade Organization).

FALSE

Difficulty: Moderate
Type: Knowledge

25. (p. 42) GATT stands for Global and Territorial Trade.

FALSE

Difficulty: Easy
Type: Knowledge

26. (p. 43) Since GATT's inception there have been four "rounds" of intergovernmental tariff negotiations.

FALSE

Difficulty: Moderate
Type: Knowledge

27. (p. 44) The WTO (World Trade Organization) is an institution, not an agreement as was GATT.

TRUE

Difficulty: Easy
Type: Knowledge

28. (p. 46) The International Monetary Fund (IMF) was created to serve as a watchdog over most international financial transactions between nations.

FALSE

Difficulty: Moderate
Type: Knowledge

29. (p. 46) An International Monetary Fund device, special drawing rights (SDR), is in effect "paper gold."

TRUE

Difficulty: Moderate
Type: Knowledge

30. (p. 47) Those that protest WTO meetings are generally thought to be antiglobalization in their orientation.

TRUE

Difficulty: Easy
Type: Comprehension

Multiple Choice Questions

31. (p. 27) American beef continues to be excluded in this country's diet based on disputes about mad cow disease.

- A.** Japan
- B. Mexico
- C. Canada
- D. United Kingdom
- E. China

Difficulty: Easy
Type: Knowledge

32. (p. 27) International work continues around the world to reduce these trade obstacles to peace and prosperity.

- A. Satellite and terrestrial communication.
- B. Energy and food costs.
- C. Medical and drug prices.
- D. National debt and high exchange rates.
- E.** Tariff and nontariff trade barriers.

Difficulty: Easy
Type: Knowledge

33. (p. 28, Exhibit 2.1) The United States has many successful trade relationships. Four of these relationships account for a tremendous volume of trade. All of the following countries are among the top four producers of trade for the U.S. EXCEPT:

- A. Canada
- B. Mexico
- C. Japan
- D. France**
- E. China

Difficulty: Moderate
Type: Knowledge

34. (p. 29) For every dollar the United States invested in the economic development and rebuilding of other countries after World War II, hundreds of dollars returned in the form of purchases of U.S. goods and services. The primary plan after World War II used to rebuild and reinvigorate war ravaged countries was the:

- A. Eisenhower Plan
- B. Marshall Plan**
- C. Bradley Plan
- D. Roosevelt Plan
- E. Truman Plan

Difficulty: Hard
Type: Application

35. (p. 30) With respect to international trade, MNC stands for:

- A. Municipal, National, and County districts
- B. Multilateral and National Cartels
- C. Multinational Corporations**
- D. Military and National Control districts
- E. Market Nongovernment Channels

Difficulty: Moderate
Type: Knowledge

36. (p. 31, Exhibit 2.2) With respect to the nationality of the world's 100 largest industrial corporations, the United States is home to the largest number of the top 100 firms. Which of the following countries is home to the second largest number of these firms?

- A. Germany
- B. United Kingdom
- C. France
- D. Netherlands
- E. Japan

Difficulty: Moderate
Type: Application

37. (p. 31) After 1888, the United States had unparalleled growth and a favorable balance of trade until _____. After this date, the United States has a negative balance of trade.

- A. 1950
- B. 1963
- C. 1968
- D. 1971
- E. 1985

Difficulty: Hard
Type: Comprehension

38. (p. 31, Exhibit 2.2) In 2007 this country ranked second behind the United States in number of world's largest corporations.

- A. Netherlands
- B. Japan
- C. France
- D. Germany
- E. South Korea

Difficulty: Easy
Type: Knowledge

39. (p. 31) Faced with increased competition for U.S. businesses in the '80s and early '90s, questions were raised as to how to maintain the competitive strength of American business, how to avoid the domination of U.S. markets by foreign multinationals, and how to

- _____.
- A. restructure heavy industries
- B. strengthen the dollar
- C. initiate retaliatory trade restrictions
- D.** forestall the buying of America
- E. return to the gold standard

Difficulty: Moderate
Type: Knowledge

40. (p. 33) The system of accounts that records a nation's international financial transactions is called its:

- A. trade balance.
- B. national accounts system.
- C. EX-IM (exports-imports) account.
- D.** balance of payments.
- E. exchange rate.

Difficulty: Moderate
Type: Knowledge

41. (p. 33) A nation's balance-of-payments statement records all financial transactions between:

- A. its member states and its primary trading partners.
- B.** its residents and those of the rest of the world during a given period of time.
- C. its suppliers and receivers.
- D. profit and nonprofit organizations over a five-year period of time.
- E. its top 100 companies and the global top 100 companies.

Difficulty: Moderate
Type: Comprehension

42. (p. 34) A balance-of-payments statement includes three accounts. Two of those accounts are the current account and the capital account. What is the third account found on the balance-of-payments statement?

- A. investment account
- B. receivables account
- C. services account
- D. credit account
- E.** reserves account

Difficulty: Hard
Type: Comprehension

43. (p. 34) Which of the following would be the balance-of-payments account that is a record of all merchandise exports, imports, and services plus unilateral transfers of funds?

- A.** current account
- B. capital account
- C. credit account
- D. receivables account
- E. reserves account

Difficulty: Hard
Type: Comprehension

44. (p. 35) The marketing manager for Healthy Horse Products wants to export to Australia but learns the labeling requirements are quite difficult to comply with limiting imports. This is a type of:

- A. blockage.
- B.** protectionism.
- C. trade refusal.
- D. stonewalling.
- E. boycotting.

Difficulty: Moderate
Type: Comprehension

45. (p. 35) Which of the following has been effective in reducing tariffs but not in preventing protectionism?

- A. GATT
- B. the United Nations
- C. the International Monetary Fund
- D. the World Court
- E. None of the above

Difficulty: Moderate
Type: Comprehension

46. (p. 35-36) All of the following would be considered to be reasons for adopting an attitude of protectionism with respect to world trade EXCEPT:

- A. to protect religious beliefs.
- B. protection of an infant industry.
- C. protection of a home market.
- D. the need to keep money at home.
- E. to encourage capital accumulation.

Difficulty: Hard
Type: Comprehension

47. (p. 35) Randall Smithe-Jones believes that protectionism is the only way to save the United Kingdom from outside competitors. He has seen small business after small business go bankrupt because cheaper foreign goods have been more popular. The UK has just started a cell-phone manufacturing industry and Smithe-Jones' company is one of the first to try their hand at cell-phone manufacturing. Which of the following would probably be the argument that Smithe-Jones would use to persuade his government representatives that protectionism is still needed in the U.K.?

- A. Protection of an infant industry
- B. The need to keep money at home
- C. Conservation of natural resources
- D. National defense
- E. The industrialization of a low-wage nation

Difficulty: Moderate
Type: Application

48. (p. 36, *Crossing Borders 2.1*) Section 301 of the Omnibus Trade and Competitiveness Act authorizes the U.S. government to _____ and _____ against specific foreign trade barriers judged to be unfair.

- A. suppress, attack
- B. educate, substantiate
- C. investigate, retaliate**
- D. market, dominate
- E. litigate, retaliate

Difficulty: Hard
Type: Comprehension

49. (p. 37) A(n) _____ is simply a tax imposed by a government on goods entering at its borders.

- A. quota
- B. trade penalty
- C. tariff**
- D. boycott
- E. embargo

Difficulty: Easy
Type: Knowledge

50. (p. 37) _____ generally do all of the following: increase inflationary pressures and special interests' privileges; decrease balance-of-payments positions; and, restrict competition.

- A. Tariffs**
- B. Voluntary export restraints
- C. Orderly market agreements
- D. Monetary barriers
- E. Quotas

Difficulty: Moderate
Type: Application

51. (p. 37) In general, _____ are arbitrary, discriminatory, and require constant administration and supervision.

- A.** tariffs
- B. standards
- C. quotas
- D. boycotts
- E. embargoes

Difficulty: Hard
Type: Comprehension

52. (p. 38) A specific unit or dollar limit applied to a particular type of good is called a(n):

- A. tariff.
- B.** quota.
- C. standard.
- D. embargo.
- E. boycott.

Difficulty: Easy
Type: Knowledge

53. (p. 37, Exhibit 2.6) All of the following would be considered to be nontariff barriers that could be erected to restrict trade EXCEPT:

- A. quotas.
- B.** taxes
- C. packaging requirements
- D. border taxes.
- E. embargoes.

Difficulty: Moderate
Type: Comprehension

54. (p. 37, Exhibit 2.6) Which of the following types of nontariff barriers would be considered to be "specific limitations on trade" by international marketers?

- A. Fees
- B. Export subsidies
- C. Voluntary export restraints
- D.** Embargoes
- E. Packaging, labeling, or marking standards

Difficulty: Hard
Type: Comprehension

55. (p. 37, Exhibit 2.6) Cybil Chan has been asked by her company to review a series of published nontariff barriers that is used by the Hong Kong Port Authority to control customs and administrative entry procedures. Which of the following nontariff barriers should Ms. Chan look for under the category called customs and administrative entry procedures?

- A. Orderly marketing agreements
- B. Voluntary export restraints
- C. Countervailing duties
- D. Export subsidies
- E.** Documentation requirements

Difficulty: Moderate
Type: Application

56. (p. 38-39) Exporting countries sometimes agree to voluntary export restraints (VER) as an alternative to the threat of:

- A. expulsion.
- B. disorderly marketing agreements.
- C.** stiffer quotas and tariffs.
- D. export subsidies
- E. standardization disparities

Difficulty: Moderate
Type: Application

57. (p. 38-39) An agreement between the importing country and the exporting country for a restriction on the volume of exports is called a(n):

- A. tariff.
- B. standards option.
- C. voluntary export option (VER).**
- D. fee.
- E. documentation requirement.

Difficulty: Easy
Type: Knowledge

58. (p. 39) When the United States refuses to sell goods to Iran because of the perception that the country harbors radicals and terrorists, the refusal is called a(n):

- A. boycott.
- B. embargo.**
- C. tariff.
- D. orderly market agreement.
- E. blocked currency.

Difficulty: Moderate
Type: Application

59. (p. 39) _____ is accomplished by refusing to allow importers to exchange its national currency for the seller's currency.

- A. Boycotted money
- B. Embargoed capital
- C. Blocked currency**
- D. Anti-banking
- E. Cartel dissolution

Difficulty: Hard
Type: Knowledge

60. (p. 39) The practice of _____ is a particularly ingenious method of controlling imports as it encourages the importation of goods the government deems desirable and discourages importation of goods the government does not want.

- A. a differential exchange rate
- B. blocked currency
- C. boycott
- D. embargo
- E. import price limit

Difficulty: Moderate
Type: Comprehension

61. (p. 40) The function of an exchange permit is to:

- A. regulate the supply of money.
- B. cut-off all exchange.
- C. require that importers gain permission to exchange an amount of local currency for foreign currency.
- D. protect monopolies.
- E. limit pornographic or harmful merchandise from the domestic market.

Difficulty: Moderate
Type: Comprehension

62. (p. 40) Tall Pine Plywood Company has just received notice that a shipment of plywood (2 metric tons) has been rejected by Japanese customs because the knotholes commonly found on a plywood sheet are too large. This would be an illustration of which of the following nontariff barriers to trade?

- A. quota
- B. predatory pricing
- C. embargo
- D. boycott
- E. standards

Difficulty: Easy
Type: Application

63. (p. 40-41) According to the information provided in the text, a new nontariff barrier that was designed to prevent foreign producers from using predatory pricing is called:

- A. quotas.
- B. fees.
- C. standards.
- D.** antidumping laws.
- E. licenses.

Difficulty: Moderate
Type: Comprehension

64. (p. 40) _____ is the practice whereby a foreign producer intentionally sells their products in the United States for less than the cost of production to undermine the competition and take control of the market.

- A. Basing point pricing
- B. Offensive pricing
- C. Defensive pricing
- D. Counterpoint pricing
- E.** Predatory pricing

Difficulty: Moderate
Type: Knowledge

65. (p. 41) Which of the following trading partners has become the number one "trade problem" for the United States at the beginning of the 21st century?

- A. the United Kingdom
- B. Japan
- C. Germany
- D. Canada
- E.** China

Difficulty: Hard
Type: Knowledge

66. (p. 41) Which of the following acts was designed to deal with trade deficits, protectionism, and the overall fairness of our trading partners?

- A. the World Trade Organization Act
- B. the Omnibus Trade and Competitiveness Act of 1988**
- C. the League of Nations Act of 1920
- D. the Hawley-Smoot Tariff Act of 1930
- E. the International Monetary Fund Act

Difficulty: Moderate
Type: Comprehension

67. (p. 47) Protesters have often disagreed with the work of the WTO. Where did the first great protest against globalization and WTO policies and plans occur?

- A. Uruguay
- B. Chile
- C. Paris
- D. Seattle**
- E. Berlin

Difficulty: Moderate
Type: Comprehension

68. (p. 47) All of the following activities or organizations are designed to support the growth of international trade EXCEPT:

- A. the General Agreement on Tariffs and Trade (GATT).
- B. the World Trade Organization (WTO).
- C. the International Trade Administration (ITA).**
- D. the World Bank Group
- E. the International Money Fund (IMF).

Difficulty: Moderate
Type: Comprehension

69. (p. 42) Shortly after World War II, the United States and 22 other nations signed _____ to pave the way for the first effective worldwide tariff agreement.

- A. the General Agreement on Tariffs and Trade (GATT)
- B. the Trade Related Investment Measures (TRIM)
- C. the World Trade Organization (WTO) agreement
- D. the International Monetary Fund (IMF) agreement
- E. the World Bank act

Difficulty: Moderate
Type: Comprehension

70. (p. 42) One of the basic elements of the General Agreement on Tariffs and Trade (GATT) is that:

- A. no nation shall unfairly create tariffs against another.
- B. all tariffs shall be abolished among member nations by 2010.
- C. the World Court shall review all claims and make final judgments.
- D. trade shall be conducted on a nondiscriminatory basis.
- E. the United Nations Trade Agency (UNTA) shall serve as watchdog.

Difficulty: Moderate
Type: Comprehension

71. (p. 43) The Uruguay Round of the WTO achieved many significant breakthroughs in trade. One of the most significant was of particular interest to those in the technology field. Which of the following was considered to be a significant breakthrough of the Uruguay Round?

- A. Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- B. Trade-Related Investment Measures (TRIMs)
- C. Trade-Related Accounting Procedures (TRAPs)
- D. Trade-Related Operational Methods (TROMs)
- E. Trade-Related Information Technologies (TRITs)

Difficulty: Hard
Type: Comprehension

72. (p. 44) The World Trade Organization was created during which of the following GATT Rounds?

- A. Seattle
- B. Uruguay**
- C. Paris
- D. Berlin
- E. Moscow

Difficulty: Moderate
Type: Knowledge

73. (p. 44) Unlike GATT, the WTO issues _____ decisions.

- A. illegal
- B. counseling
- C. no
- D. binding**
- E. intelligent

Difficulty: Hard
Type: Knowledge

74. (p. 44) The ratification of the WTO by the United States was challenged in the U.S. Congress for all of the following reasons EXCEPT:

- A. possible loss of sovereignty over its trade laws to the WTO.
- B. the lack of veto power by the U.S.
- C. the ability of a WTO member to challenge trade laws of individual states.
- D. the amount of funds that must be supplied to the WTO to run its organization.**
- E. a majority of WHO members could imposed decisions on the U.S.

Difficulty: Hard
Type: Comprehension

75. (p. 45) One of the most popular ways to circumvent WTO guidelines for free trade has been for a country to impose:

- A. antidumping duties.
- B. tariffs.
- C. quotas.
- D. fees.
- E. licenses.

Difficulty: Moderate
Type: Comprehension

76. (p. 44) As Taki Muri readies his company to pursue lucrative markets in the United States. He is apprehensive about running afoul of U.S. antidumping laws. He has always thought that these laws were constructed just to keep competitors out. However, he also believes (as many other foreign competitors believe) that one way around the U.S. antidumping laws deals with a question of interpretation. Which of the following is the best description of the interpretation loophole that Mr. Muri that believes will work to his benefit?

- A. the definition of what a product is
- B. the definition of what a price is
- C. the interpretation of what "selling below cost" is
- D. the interpretation of what a foreign good is
- E. the exchange rate variations in the value of the dollar

Difficulty: Moderate
Type: Application

77. (p. 44) According to the WTO, which of the following is the definition of *dumping*?

- A. Moving questionable goods into a market that does not want them.
- B. Flooding a market with so many goods that prices are depressed.
- C. Taking excess capacity of one nation and moving that capacity to another.
- D. Selling a good at a lower price in the foreign market than in other markets.
- E. Exporting goods to take advantage of favorable foreign exchange rates.

Difficulty: Easy
Type: Knowledge

78. (p. 45) Several nations are frustrated with the slow progress of the most recent round of WTO trade negotiations. To vent this frustration, several countries are:

- A. negotiating bilateral trade agreements.
- B. forming a rival organization.
- C. refusing to honor rules and regulations imposed by the WTO.
- D. using legal means to sue the WTO.
- E. doing all of the above to retaliate against the WTO.

Difficulty: Moderate
Type: Comprehension

79. (p. 45) _____ and the World Bank Group are two global institutions created to assist nations in becoming and remaining economically viable.

- A. The United Nations
- B. The World Court
- C. The International Monetary Fund
- D. The International Red Cross
- E. The League of Nations

Difficulty: Easy
Type: Knowledge

80. (p. 45) _____ has been the forum for successful trade negotiations; recent trade talks continue in Geneva in 2008.

- A. ICC (International Chamber of Commerce)
- B. EU (European Union)
- C. WHO (World Trade Organization)
- D. IMF (International Monetary Fund)
- E. NAFTA (North American Free Trade Agreement)

Difficulty: Moderate
Type: Knowledge

81. (p. 46) Which of the following is one of the primary objectives of the International Monetary Fund (IMF)?

- A. The abolishment of unfavorable exchange rates for any nation.
- B. The abolishment of debt for impoverished nations.
- C. The stabilization of foreign exchange rates.**
- D. The waiver of all debts from World War II.
- E. The establishment of global nondiscriminatory prices.

Difficulty: Easy

Type: Comprehension

82. (p. 46) Another term for IMF special drawing rights (SDRs) is:

- A. black gold.
- B. wealth for capitalists.
- C. peace in our time.
- D. paper gold.**
- E. virtual dollars.

Difficulty: Easy

Type: Knowledge

83. (p. 46) The World Bank provides all of the following to reduce poverty and improve standards of living EXCEPT:

- A. provides loans.
- B. provides technical assistance.
- C. provides policy guidance to developing-country members.
- D. starter governments for a period of five years.**
- E. provides investors with investment guarantees.

Difficulty: Easy

Type: Comprehension

84. (p. 47) One of the major complaints from protestors during the Seattle Round of the WTO meetings centered on:

- A. the use of the automobile by the industrialized world.
- B. sweatshops that supplied industrial nations with goods.**
- C. strike breaking within industrialized nations.
- D. the obesity of citizens of industrialized nations.
- E. the use of the Internet by industrialized nations.

Difficulty: Moderate
Type: Comprehension

Fill in the Blank Questions

85. (p. 30) With respect to international trade, a _____ is often called a MNC.
multinational corporation

Difficulty: Easy
Type: Knowledge

86. (p. 30) In 1968, French author, J.J. Servan-Schreiber wrote the popular book _____ that focused on the fears of Europeans that American industry would take over Europe and European markets.

The American Challenge

Difficulty: Hard
Type: Knowledge

87. (p. 31, Exhibit 2.2) The country that is the home to the largest percentage of the top 100 largest industrial corporations is _____.

the United States of America

Difficulty: Easy
Type: Knowledge

88. (p. 31) From 1888 to 1971, the United States had a _____ balance of trade where it sold more than is bought from other countries.

favorable

Difficulty: Easy
Type: Knowledge

89. (p. 33) A nation's _____ statement records all financial transactions between its residents and those of the rest of the world during a given period of time--usually one year.

balance-of-payments

Difficulty: Moderate
Type: Knowledge

90. (p. 34) With respect to a nation's balance-of-payments statement, the official _____ account is a record of exports and imports of gold, increases or decrease in foreign exchange, and increases or decreases in liabilities to foreign central banks.

reserves

Difficulty: Hard
Type: Knowledge

91. (p. 37) Although the World Trade Organization (WTO) was effective in reducing tariffs, countries still resorted to measures of _____.

protectionism

Difficulty: Moderate
Type: Comprehension

92. (p. 37) A _____ is a tax imposed by a government on goods entering at its borders.

tariff

Difficulty: Easy
Type: Knowledge

Chapter 02 - The Dynamic Environment of International Trade

93. (p. 38) A _____ is a specific unit or dollar limit applied to a particular type of good.
quota

Difficulty: Moderate
Type: Knowledge

94. (p. 39) An _____ is a refusal to sell to a specific country.
embargo

Difficulty: Moderate
Type: Knowledge

95. (p. 40-41) Antidumping laws were designed to prevent foreign producers from using their _____ pricing.
predatory

Difficulty: Easy
Type: Comprehension

96. (p. 44) The _____ is an institution, not an agreement as was GATT.
WTO

Difficulty: Moderate
Type: Knowledge

97. (p. 45) The _____ and the _____ are two global institutions created to assist nations in becoming and remaining economically viable.
International Monetary Fund (IMF); World Bank Group

Difficulty: Hard
Type: Knowledge

Essay Questions

98. (p. 30) In his 1968 book called *The American Challenge*, French author J.J. Servan-Schreiber made certain predictions about the European market. Briefly characterize those predictions.

Servan-Schreiber predicted that the U.S. influence on Europe was becoming so overwhelming that in a few short years the U.S. and Russia would so completely dominate Europe that Europe would become American Industry Europe. For additional predictions see chapter material.

Difficulty: Moderate
Type: Comprehension

99. (p. 31) Describe what happened to the United States with respect to its balance of trade after 1971.

After 1971 the United States began to have an unfavorable balance of trade. This meant that for the first time since 1888 the United States did not sell more than it bought from foreign markets. For additional details see chapter material.

Difficulty: Moderate
Type: Application

100. (p. 33) What does a nation's balance-of-payments statement indicate?

A nation's balance-of-payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time--usually one year.

Difficulty: Easy
Type: Knowledge

101. (p. 33-35) A nation's balance-of-payments statement includes three accounts. Describe each of those three accounts.

The accounts consist of: (1) the current account--a record of all merchandise exports, imports, and services plus unilateral transfers of funds; (2) the capital account--a record of direct investment, portfolio investment, and short-term capital movements to and from countries; and, (3) the official reserves account--a record of exports and imports of gold, increase or decreases in foreign exchange, and increases or decreases in liabilities to foreign central banks.

Difficulty: Hard
Type: Comprehension

102. (p. 35-36) Countless reasons are given to maintain government restrictions on trade. The text lists eleven (11) such reasons. Please list any five (5) of these reasons.

Students may choose any of the eleven reasons cited on Page: 35 or Page: 36 in the chapter.

Difficulty: Hard
Type: Knowledge

103. (p. 37) Tariffs have an impact on trade. Please provide a brief discussion that indicates what aspects of a country's economy are *increased*, *weakened*, or *restricted* with respect to world trade.

The text list several illustrations of increase, weaken, and restrict phenomenon or factors. Any of the three above can be used to adequately answer this question. Because of the length of the list, it is not repeated here. However, for a complete viewing see Page: 37 in the chapter. If more specific instructions are warranted, please insert them in the question.

Difficulty: Hard
Type: Analysis

104. (p. 39) What is the difference between an embargo and a boycott?

An embargo is a refusal to sell to a specific country. A public boycott can be either formal or informal and may be government sponsored or sponsored by an industry. Boycotting deals with buying goods rather than selling them.

Difficulty: Moderate
Type: Comprehension

105. (p. 37) Using three examples, describe how nontariff barriers are used to restrict imports.

Students examples will vary. Exhibit 2.6 on Page: 37 lists numerous types of nontariff barriers.

Difficulty: Moderate
Type: Comprehension

106. (p. 42-45) Briefly, describe the history and impact of the General Agreement on Tariffs and Trade (GATT).

GATT began shortly after World War II and, although not all countries participated, this agreement paved the way for the first effective worldwide tariff agreement. The original agreement provided a process to reduce tariffs and created an agency to serve as a watchdog over world trade. For additional information, see pages 42-45 in the chapter.

Difficulty: Hard
Type: Comprehension

107. (p. 44-45) Briefly, describe how the World Trade Organization (WTO) functions.

At the signing of the Uruguay Round trade agreement in 1994, U.S. representatives pushed for an enormous expansion of the definition of trade issues. The result was the creation of the World Trade Organization, which encompasses the GATT structure and extends it to new areas not adequately covered in the past. The WTO is an institution, not an agreement as was GATT. It sets many rules governing trade among its 148 members, provides a panel of experts to hear and rule on trade disputes between members, and, unlike GATT, issues binding decisions. For additional information, see pages 44-45.

Difficulty: Hard
Type: Comprehension

108. (p. 38-39) As a trade representative of the United States, you have become alarmed at the increasing number of nations that are using quotas as a means of controlling trade and protecting domestic interests. You believe that utilization of voluntary export restraints (VERs) or orderly market agreements (OMAs) is a far superior approach to quota systems. Explain how quotas, VERs, and OMAs work to justify your position.

A quota is a specific unit or dollar limit applied to particular type of good (such as limiting the number TV sets imported from Japan). Quotas tend to add as much as 50 percent to the final selling price of the good. This increases inflationary pressures. Common in textiles, clothing, steel, agriculture, and automobiles, VERs are agreements between the importing and exporting countries for a restriction on the volume of exports. Signing an OMA would bring order to a market by restricting product flow. OMAs also result in many foreign goods manufacturers bringing manufacturing facilities to the importing country (a plus for jobs in a sense) but negative results can still thwart market stability. For more information and examples see page 38-39.

Difficulty: Hard
Type: Analysis

109. (p. 44-45) As member of the automobile industry in the United States, you have long believed that Japan is guilty of predatory pricing in the U.S. automobile industry market. Explain predatory pricing and why that Japan might be guilty of such a practice.

Predatory pricing is a practice where a foreign producer would intentionally sell their products in the United States for less than the cost of production to undermine competition and take control of the market. For many years, Japanese carmakers Toyota and Honda were accused of such practices. Some felt that this policy was the only way that Japanese cars could crack the tough U.S. market where U.S. carmakers controlled not only pricing but distributorships. Students are free to give their own opinions on the issue (however, justifications or facts should accompany opinions). The instructor might advise research on the issue before assigning this question. For additional information on predatory pricing and further illustrations of the practice, see pages 44-45 in the chapter.

Difficulty: Moderate
Type: Application